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Special In-Depth Report

Hubbell Pay Review Findings Released by Defense Department

Even though significant increases in military compensation have been provided by law during these years, military pay has not been adjusted by any preplanned, long-range pattern since the present system was established in 1949.

Recently initial findings and recommendations of the most comprehensive study of military compensation conducted since the Hook Commission, which established the principles of the present system, were released by the Department of Defense.

This study is the first Quadrennial Review of Military Compensation directed by the Congress and the President through the military pay law of 1965 and frequently referred to as the Hubbell Report.

The Review is over 50 percent complete. Findings and recommendations concerning active duty compensation have been completed by the special task force that has been conducting the Review under the direction of the Assistant Secretary of Defense (Manpower and Reserve Affairs) since March 1966.

The remaining portion, covering retired pay and survivor benefits, will be completed during the coming year. Draft legislation based on the Review is not expected to be completed until early 1969. Meantime, every member of the Armed Forces will be interested in findings of this comprehensive look at how and why he is compensated under the present system and recommendations as to what and how he may be paid in the future.

Two Groups

Two pay methods are recommended: one for careerists and one for noncareer members who receive much of their income in kind. In the noncareer group would be all persons in pay grades E-1, E-2, and E-3, those in grade E-4 and E-5 with under 2 years of service, and those in pay grades E-4 and E-5 who have between 2 and 4 years of service and total active duty commitments of *less than* 6 years. All other enlisted members and all warrant officers and commissioned officers would make up the career group.

Findings of the task force revealed that it would undoubtedly serve the interest of both the individual and his Service for members of the noncareer group to continue to draw military compensation as a combination of cash and in-kind payments. For the most part these members are young and single. It would work hardships on both the member and his unit if the member were forced to operate on his own in this country or overseas, rather than on-base and for the most part a member of a self-sustaining military community.

Fifty-two percent of all personnel fall in the noncareer group. Eighty percent will serve only one term; 84 percent are single; and the average age is 20.

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In principle basic pay would continue to these members, but the task force recommended that this cash be referred to as "personal money pay" in order to emphasize the "spending money" aspect of this pay.

Under the present compensation system, an individual's basic pay represents the amount he receives over and above the housing, clothing, subsistence and medical care provided by his Service. In effect, his basic pay is his personal spending money, or that amount received in addition to these essentials. The term "personal money pay" would, therefore, better convey to the military member, his family, and the general public this idea, rather than leaving room for conclusions that his basic pay is his total military compensation while in uniform.

So that military service would not impose an economic

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penalty on typical members of the noncareer group, the task force has recommended that—

• The average residual income (pay after necessities) of all military noncareer members exceed the average residual income of the civilian minimum wage earner and, for the normal noncareer member, exceed the residual income of the single male high school graduate of the same age employed full time in the civilian economy over the same period.

		Residual Income	
Years of Service	Age	Military	Civilian High School Graduate
1	19	$1,202	$1,198
2	20	1,522	1,296
3	21	1,985	1,393
4	22	2,403	1,471
Cumulative		$7,112	$5,358

CHART 1. Residual income comparison between military and civilian.

• The maximum promotion time for fully qualified personnel be 4 months' active service to E-2 and 12 months' active service to E-3. This promotion schedule can assure earnings gains in line with those of the single male high school graduate of the same age who is employed full time in the civilian economy over the same period.

• Dependents Assistance Act allowances be continued as a supplemental payment to the 16 percent of the noncareer group who have dependents. Noncareer members in grade E-5 would be added to those eligible for the Dependents Assistance allowances. These allowances would be adjusted periodically to reflect increases in rental costs.

Figures in Chart 1 show how residual income based on basic pay rates—or personal money pay—effective since October 1, 1967, compare with residual income in the civilian economy and thus meet the standards recommended by the task force.

In order that compensation of the noncareer group can be kept abreast of the economy and in line with career enlisted compensation, it is recommended that—

• Noncareer compensation be adjusted annually. Such adjustment should be equal to the average increase in career enlisted compensation over the same period. Dependents Assistance Act allowances be adjusted periodically and as necessary to keep them in line with changes in rental costs in the civilian economy.

A basic overhaul, to include switch to a military salary, has been recommended for career military compensation. Enlisted members who would be paid by the salary method would include all those in grade E-6 and above and E-4s and E-5s who have over 4 years of service or have between 2 and 4 years of service and a total commitment of at least 6 years. All warrant and commissioned officers would be paid through the salary method.

As with every military compensation study conducted for the past 10 years, the key problem proved to be a persistent shortage of persons with mid-range experience, especially in the 4-14 year group. Imbalances, based on military strengths as of June 30, 1965, are shown in Chart 2.

This mid-range experience deficit proved most acute in fields such as doctors, lawyers, and pilots, but the problem was found to exist in virtually all officer grades and in the technical enlisted skills. Such deficit reduces general effectiveness of the military forces because junior people must be used to fill middle-level jobs. In addition, personnel and training costs are increased because of excessive turnover resulting.

The task force found that compensation has been a major cause of this persistent shortage of middle-career personnel. Further, members of the Armed Forces lack

Completed Years of Service	Officer Overage/Deficit	Enlisted Overage/Deficit
0-3	+50%	+14%
4-14	—25%	—28%
15 & above	----	+50%

CHART 2. A persistent effectiveness and cost problem: too many at beginning or toward end of careers, too few in mid-career.

Salary	**$16,707.0**
Basic Pay	11,431.9
Quarters	2,663.7
Subsistence	1,750.4
Tax Advantage	861.0
(Imputed retirement contribution of $533.2 is sometimes used in making certain comparisons.)	
Special & Premium Pays	**$1,370.4**
Hostile Fire	N/A
Incentive Pay:	
Hazardous Duty	397.7
Diving	3.7
Sea & Certain Places	149.4
Reenlistment Bonus:	272.7
Normal	178.5
Variable	94.2
Proficiency Pay:	147.9
Specialty	129.2
Sup. Perf.	18.7
Special Pay to Medical Personnel	42.5
Separation Pays	356.5
Supplemental Benefits	**$ 3,722.3**
Current Year Retirement Accrual	2,502.2
Dependents Indemnity Compensation	130.5
Death Gratuity	34.1
Social Security	469.3
Medical Care	441.0
Commissary & Exchange	110.2
Mortgage Insurance	5.4
Unemployment Compensation	29.6
Noncompensation Personnel Costs	**$ 874.1**
Clothing Issues & Allowances	445.9
Personal Money Allowance	0.2
Family Separation Allowance	128.2
Disclocation Allowance	66.7
Overseas Station Allowance	142.9
Burial Costs	10.0
SGLI (extra hazard premium)	80.2

CHART 3. Items that have been treated as compensation. ($ million, FY 1968, including Oct. 1, 1967, increase; total military compensation: $21,799.7)

confidence in the present pay system because it is complex and confusing, it does not reward individuals equitably, and it cannot be compared with or objectively adjusted in relation to trends in civilian earnings.

Career Pay Complex and Confusing

A person in uniform on active duty can receive his total compensation as almost any combination of more than 20 elements. Few military members can accurately estimate their total compensation. Chart 3 illustrates this fragmentation of military pay. Amounts shown are in millions, reflecting total costs of each compensation element for fiscal year 1968 and including the October 1, 1967 pay increase.

A Louis Harris survey for the Navy asked officer and enlisted personnel who had completed an initial tour and who were potential careerists to estimate their military earnings. They consistently underestimated military earnings throughout a career by 10 to 24 percent.

Also detrimental to member confidence in his pay, when banks and finance companies were asked how they valued military compensation for lending purposes, the answer was much the same. Total compensation of an O-1 was under-rated by 30 percent. The same institutions rated an E-7 12 percent too low and an 0-6 4 percent too low.

As one way of overcoming this general lack of confidence among military members in what their compensation is and how it is determined, the task force recommended that the military counterpart of civilian salary be identified and displayed as a military salary. This salary would replace the following compensation items: basic pay, quarters and subsistence allowances, tax advantage resulting from the nontaxable allowances, and the imputed retirement contribution.

The second reason why military pay is undervalued is the numerous ways in which it is received. Unlike the civilian, most of whose compensation is in taxable cash, the military member receives less than 60 percent of his compensation as taxable cash. Chart 4 shows by percentage how a member receives compensation as cash, in-kind or cash allowances, savings, and deferred payments.

A career force member, in the opinion of the task force, should be fully paid in taxable cash, just as his civilian counterpart is. The member would then pay his

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'Only 60 cents out of the military salary dollar is related to services performed. The remainder is determined by dependency status, whether the member is provided his allowances in-kind or draws them in cash, and whether he stays to collect retirement.'

full taxes, pay for—either in cash or by payroll deduction—subsistence and housing furnished by the Government. Exceptions in this latter instance would, of course, be housing furnished when he is in the field or on shipboard.

Like his civilian employee counterpart, he would contribute 6.5 percent of his salary to his retirement account and would thus gain a vested equity in this account. Chart 5 summarizes the values that would accrue to the member under the vesting provision.

No Equitable Reward for Careerists Under Present System

Only 60 cents out of the military salary dollar is related to services performed. The remainder is determined by dependency status, whether the member is provided his allowances in-kind or draws them in cash, and whether he stays to collect retirement.

For example, an E-5 bachelor living on base receives the equivalent of $4,630 a year, while the E-5 bachelor living off base gets the equivalent of $5,842. For married men, one E-5 living off base and another E-5 living in Government quarters, the inequity even shifts positions. The man in Government quarters gets the equivalent of about $400 more. Example salaries are $5,842 for the married man living off base and $6,247 for the married man living in Government quarters.

Further, allowances bear little relationship to actual costs and have been adjusted only sporadically for many years. For example, only three adjustments have been made in quarters allowances since 1946. But ten adjustments have been made in basic pay over the same period. Subsistence allowance for officers, now $47.88 a month, was last adjusted in 1952—more than a decade and a half ago.

The family living off base spends substantially more on housing than its basic allowance for quarters. Only one-third of the career force families can be housed on base. These families forfeit only their BAQs and are generally subsidized in regard to housing accommodations when compared to career families who live off base.

The imputed retirement contribution is considered to be a part of total salary for all members for the purpose of setting basic pay. Traditionally, this is a significant portion of military compensation in the minds of all interested parties: the member, compensation planning staffs, the Congress, and the public.

In actual distribution of funds earmarked for military retirements, only a minority of the force ever realizes any benefit from amounts considered to be a part of their total compensation through years of military service. Among career enlisted men only 46 percent actually collect retired pay. Among officer personnel, the percentage is even smaller. Only 18 percent retire.

This condition greatly discourages mid-length careers. It does not become a positive incentive for retention until about the eighth year of active service. Equally undesirable, it then tends to lock people in the system until they can retire—most at the 20-year point.

To achieve equity based on both services performed and years of service put in, the task force recommends that—

- The same salary be paid to all career personnel of the same grade and years of service without regard to dependency status or quarters occupancy status.
- The retirement contribution be vested to the member —that is deducted regularly from his military salary— and be refundable to him if he leaves military service short of retirement.

Since a member who transfers to a reserve component retains his potential eligibility for military retirement, his retirement contribution would not be refundable at the time he was separated from active duty. It would, however, be refundable at any later date at which his potential retirement eligibility ended.

A Way to Put and Keep Military Salaries in Line With Civilian Earnings

The President, in his April 5, 1967, message to the Congress, has said that military personnel should be compensated on a scale comparable to that of Federal civil service employees. He further stated that in the future military salaries should increase as civil service salaries are increased.

This policy provided the justification for across-the-board military pay increases in 1966 and 1967. The 1967 military pay law also authorizes further automatic military pay increases, the amounts to be determined by the percentage increases granted to civil service employees. However, such increases keep military and civil service compensation fixed in their present relationship. The question before the Study Group was: Are members of the Armed Forces now paid at parity with their civil service counterparts? The answer, from two separate studies, was a clear-cut "no." Thus, it became evident

that military compensation must also catch up to civil service in addition to maintaining its present relationship.

In arriving at an objective method of judging whether military salaries are at parity with civil service salaries, the task force found a significant lag today between military and civilian salaries.

A "work level" standard of comparing military and civilian salaries was determined to be the most appropriate for setting initial amounts to be paid under the military salary method.

A team of Defense, Budget Bureau, and Civil Service Commission specialists applied to the military grades the same techniques used to link the Foreign Service and Postal Field Service pay structures to the pay structure for Classification Act employees. The key in achieving this correlation is a standardized and systematic job evaluation of a large number of positions in the two systems to find grades that correspond on the basis of work requirements, or level of responsibility.

Method of Payment	Per Cent of Total
• Taxable cash	58.8%
• Nontaxable cash allowances	11.5
• Allowances in kind, nontaxable	8.7
• Savings (medical, tax advantage, etc.)	9.5
• Deferred compensation (Retirement accruals, not now vested)	11.5
TOTAL	100%

CHART 4 Shown in percentages, how a member receives compensation as cash, in-kind or cash allowances, savings, and deferred payments.

Even though under operational conditions military duties vary greatly from tasks being performed by persons working in Federal civil service or the private sector, the Budget-Civil Service-Military pay team found conclusive evidence that valid linkage points could be established on the basis of the duties performed by a majority of persons in uniform at certain grades.

This linkage will insure a common salary policy throughout the Federal Government and is consistent with the President's policy statement concerning comparable compensation for the military and civilian forces.

Recommended salary rates for other grades were then worked out on the basis of internal work relationships among military grades as fitted to the military "payline." In this instance, the longevity step that best represented each grade was used as the "payline step," or pivotal salary step, for that grade.

Using these criteria, the lag between military parity and civil service salaries proved to be about $824 million overall after the October 1, 1967, pay increases for both groups. This total figure represents a net lag of 6.2 percent in military career force salaries. Chart 6 shows this lag.

Chart 7 shows a portion of the salary schedule required to overcome this lag. In each case, the salary shown for each grade is the amount established at the "payline step."

Bear in mind that amounts shown in this table are based on the October 1, 1967, pay increase of Classification Act civilian employees. The 1967 Federal Salary Act authorizes two additional increases to bring salaries in line with comparable salaries earned in the private sector. These increases are scheduled for July 1, 1968, and July 1, 1969. The 1967 military pay law gives members of the Armed Forces assurance of comparable increases. Thus, the effective date of any switch to military salary would have a significant effect on initial career military salaries set.

The earliest effective date for a switch-over—and this assumes general legislative agreement and speedy processing into law—would be July 1, 1969. Thus, salary schedules prepared for this date would show salaries somewhat higher, to include the military pay increase corresponding to the July 1, 1968, and July 1, 1969, civilian employee pay increases. Correspondingly, salary charts for an effective date later than July 1, 1969, would show still higher career salaries, reflecting the civilian employee pay increases up to that date.

Special and Incentive Pays Mostly Unchanged

Some special or incentive pays are fixed amounts; others vary with basic pay and allowances. The compensation task force reached the following conclusions in regard to these many elements of military pay.

Among special pays that should remain fixed at present dollar amounts are—

- Proficiency pay
- Sea pay and Certain Places pay
- Hazardous duty incentive pays
- Special pays to veterinarians, dentists, and physicians
- Hostile fire pay
- Dislocation allowances
- Family separation allowances

In regard to flight pay, the task force recommends that both the rationale and the rates for flight pay, with special emphasis on flight pay for warrant officers, be further studied in the light of parity salary.

Glider pay would be abolished as outmoded and unused; and responsibility pay, which has never been effected, would also be eliminated.

Pay for Service academy cadets and midshipmen and drill pay for reservists and national guardsmen would remain at present dollar levels but would be adjusted automatically as required to reflect increases in career salaries needed to match salary changes in the private sector.

'A one-time save-pay provision would insure that under the military salary system no member receives less take-home pay than he received before.'

Some special and incentive pays would be changed. Task force recommendations in regard to these changes are—

- Normal reenlistment bonus should be considered to be fully incorporated into the career salary. No normal reenlistment bonuses should be paid after the switch to the career salary system.
- The variable reenlistment bonus should be computed at 50 percent of 1 month's salary, rather than on the present basis of 1 month's basic pay. This simply translates the VRB formula from the basic pay to the salary system.
- Separation pays likewise should be based on annual salary, using a formula of 1 month's salary per year of service, with a 1-year maximum to replace the existing 2 months' basic pay with 2-year or $15,000 maximum. Those separated for "show cause" reasons would receive one-half month's salary per year of service, with a half-year maximum. Enlisted career members would be made eligible for separation pay, as well as for the disability severance pay they can now get. At the present time enlisted careerists are not eligible for separation payments.
- A one-time save-pay provision would insure that under the military salary system no member receives less take-home pay than he received before.
- A longevity structure for in-grade increases would be retained. Promotion to the next higher grade would be rewarded more than longevity in grade.

Supplemental benefits are of two types. The first group constitutes savings to military families, justified by the hardships of service life resulting from frequent moves and uneven availability of commercial facilities. These include commissaries and exchanges. The second group of supplemental benefits relates to the military estate benefits, such as retirement, dependents indemnity compensation, social security, and death gratuity.

In general the active duty portion of the initial Quadrennial Review of Military Compensation, which is the volume completed to date and transmitted to the Congress as a matter of information, recommends no significant changes in the first group of supplemental benefits.

In regard to commissary and exchange operations, the task force recommends converting to self-supporting operations by discontinuing direct Government subsidies, except that the Government would continue to support any extraordinary costs incurred in oversea operations or in war zones. Based on current cost figures, such a conversion would mean that only a nominal amount in annual costs would have to be recovered.

One other recommendation concerning supplemental benefits has been made by the task force. This would be the discontinuance of payment of FHA mortgage insurance premiums for military homebuyers. The benefit is no longer necessary because the Veterans Readjustment Act of 1966 makes VA home loan provisions applicable to career members while still in active service.

In the case of the military estate program, these benefits will be the subject of intensive study by the task force during the coming year and findings and recommendations will make up the rest of the first Quadrennial Review of Military Compensation.

The switch to military salary and other changes to modernize the present military compensation system as recommended by the Hubbell task force would involve a $1.5 billion increase in the Department of Defense budget based on the October 1, 1967, pay rates. This figure, however, represents the gross outlay by DOD, rather than

Year of Active Service	OFFICER		ENLISTED	
	Annual Retirement Contribution	Year End Accumulated Retirement Balance	Annual Retirement Contribution	Year End Accumulated Retirement Balance
1	$ 524	$ 524	$ 0	$ 0
3	579	1,658	238	238
5	695	3,002	368	937
7	747	4,468	396	1,713
10	794	6,778	425	2,963
12	824	8,430	441	3,842
15	880	11,009	466	5,216
18	960	13,833	496	6,675
20	1,064	15,911	524	7,714

CHART 5. Examples of individual contributions and accumulated retirement fund. Contribution equals 6.5 percent of 1967 parity salary.

Pay Grade	Average Salary Required for Parity with Civil Service	Adjusted Average 1 October 1967 Military Salary [1]	Difference $	Difference %	Total FY 1968 Amount of Lag ($ Million)
O-8	27,055	27,151	—96	—0.4	—0.1
O-7	25,356	23,562	1,794	7.1	1.2
O-6	22,387	19,724	2,663	11.9	45.7
O-5	18,709	16,670	2,039	10.9	84.1
O-4	14,858	13,736	1,122	7.6	77.9
O-3	11,737	11,403	334	2.8	37.0
O-2	9,327	8,852	475	5.1	28.0
O-1	7,548	6,615	933	12.4	67.2
Comm Off	$12,444	$11,528	$ 916	7.4%	$340.8
W-4	$15,126	$12,904	$2,222	14.7%	$ 9.3
W-3	12,431	10,887	1,544	12.4	5.4
W-2	10,029	9,310	719	7.2	5.3
W-1	8,406	8,217	189	2.2	1.9
Warr Off	$10,568	$ 9,694	$ 874	8.3%	$ 21.9
All Off	$12,325	$11,412	$ 913	7.4%	$362.7
E-9	$11,330	$10,633	$ 697	6.2%	$ 11.4
E-8	9,432	9,301	131	1.4	5.6
E-7	8,219	8,191	28	0.3	4.1
E-6	7,242	7,134	108	1.5	30.4
E-5	6,356	5,918	438	6.9	220.3
E-4	5,865	5,123	742	12.7	189.8
Career EM	$ 6,843	$ 6,472	$ 371	5.4%	$461.6
				TOTAL	$824.3

CHART 6. Military career force lag behind civil service, based on October 1, 1967, salaries. Adjusted average military salaries (column 3) reflect imputed retirement credit of 6.5 percent of military salary.

the increased net cost to the Government to put the salary system into effect.

Recoveries of costs from other recommendations and increased tax collections reduce the net new cost to the Government to $460 million for the first year, based on October 1, 1967, pay scales.

The President is committed to bringing civil service employment to full comparability with private enterprise by 1969. The President's 1967 pay message to the Congress implied substantial military pay increases over the 2 years following. Legislation passed by the Congress and signed by the President last fall, in fact, assures military personnel of pay increases equal to any civil service pay increases during 1968 and 1969.

While projected figures to reflect such increases are not available, the same degree of upgrading of military compensation to bring both parity with civil service and full comparability with private enterprise would result in increased net costs to the Government regardless of the compensation system used. Therefore, a large portion of any projected cost of the modernized military compensation would be required even if the present military compensation system were retained through 1969.

It is the belief of the Hubbell task force that a more equitable, more effective compensation system could be achieved at minimum increased net cost to the Government through a switch to the military salary system.

Pay Grade	Longevity Step	Recommended Salary
O-8	28 years	$27,055
O-7	26 years	25,434
O-6	24 years	21,878
O-5	20 years	18,107
O-4	14 years	14,519
O-3	8 years	11,650
O-2	3 years	9,254
O-1	1 year	7,409
W-4	24 years	15,027
W-3	20 years	17,513
W-2	14 years	9,902
W-1	10 years	8,191
E-9	20 years	11,057
E-8	18 years	9,254
E-7	16 years	8,108
E-6	14 years	7,142
E-5	8 years	6,360
E-4	3 years	5,700

CHART 7. Examples of military career salaries required for parity with October 1, 1967, salaries of Federal civil service counterparts.

Still a Long Way from Your Paycheck

The modernized compensation system as recommended by the Hubbell task force is still several critical steps away from military paychecks. These steps include —

- ***Completion of review of the military estate program.***

- ***Department of Defense, Bureau of the Budget, and Presidential endorsement of the completed report and the legislative proposals stemming from it.***

- ***Formal presentation of draft legislation to the Congress.***

- ***Consideration of it by the Armed Services Committees of the Senate and the House of Representatives, including study of proposals, possible modification, and approval of bills to be voted on by each house.***

- ***Independent passage of the bills by the Senate and the House of Representatives.***

- ***Presidential signature enacting final legislation into law.***

- ***Implementation of the law by Department of Defense and the Services.***

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